

Advance Shipping Notification and Inventory Integrity Report

Essential Findings of the 2017 Study

Prepared By

Brian J. Gibson, Ph.D.



AUBURN UNIVERSITY

CENTER FOR SUPPLY CHAIN INNOVATION

Study Partners

traverse
SYSTEMS



SupplyChainDigest™
Your First Stop for Supply Chain Information

A Brief Note

Welcome!

On behalf of Auburn University's Center for Supply Chain Innovation, Traverse Systems, the Retail Value Chain Federation, and Supply Chain Digest, we are pleased to present you with the 2017 Advance Shipping Notification and Inventory Integrity report. This follow-up to the original 2011 study is unique in the industry, covering a highly relevant topic that facilitates success in this hyper-speed omnichannel retail environment.

We believe this report provides a one of a kind view of the issues faced by retailers and their suppliers in the quest to serve ever-increasing customer requirements. The report provides considerable insight to the daily challenges that you face in today's dynamic retail supply chain.

We want to thank everyone who took the time to participate in phone interviews, complete the survey, and provide 2016 ASN data. Your insightful and honest input is greatly appreciated. The report is stronger and more insightful because each of you took the time to engage.

Best Regards,

Dr. Brian Gibson

Executive Director
Auburn University CSCI

Greg Holder

CEO and Co-Founder
Traverse Systems

TABLE OF CONTENTS

Introduction.....	1
Fulfillment Facilitators	
About the Study.....	3
Current State of ASNs: Study Results	4
Executive Interview Highlights	
Retailer Survey Results	
Case Study Analysis	
Best Practices.....	16
Supplier Success Tactics	
Retail Success Tactics	
Tactics Wish List	
Tactics to Avoid	
Study Implications	20
Supplier Imperatives	
Retailer Imperatives	
Summary	21

Introduction

Disruption and transformation are the new norms in retailing. Aggressive competitors using new channels are altering consumers' shopping habits and placing heavy demands on retail supply chains.

In just over two decades of e-commerce activity, Amazon has become a \$136 billion e-commerce juggernaut. Its growing network of 295 U.S. sortation, redistribution, and fulfillment centers help the company provide fast, reliable service and build a loyal following of Prime customers.

Meanwhile, venerable names in retailing have struggled to remain relevant to shoppers. No longer is it sufficient to flow inventory through distribution centers to brick-and-mortar stores. The buy anywhere, anytime culture demands that traditional retailers develop strong omni-channel fulfillment capabilities to serve their customers.

Speed to market is often discussed as the means to combat Amazon and other online competitors. Speed is certainly important but there is an even more crucial factor to consider – inventory accuracy. Without accuracy, prioritizing speed leads to errors that become returns, shortages that inhibit sales, and dissatisfaction that drives customer defection.

To profitably serve omni-channel consumers, a retailer needs a precise read on stock levels at every location in its network – from the supplier's factory to the store shelf. With omni-channel orders being filled from everywhere in the supply chain, it is essential to have timely visibility and correct information to inventory levels.

Retailers understand this critical need. They have made heavy investments in process improvements and technology to boost inventory accuracy and visibility. Yet, problems remain. In-store inventory accuracy levels hover around the 80% level at an individual item level. These mismatches between physical inventory counts and system-based virtual inventory quantities will ultimately lead to fulfillment failures.

THE IMPERATIVE

“Inventory accuracy at the store is a big push for us. We have to drive the inventory accuracies up so that we can fulfill from the supply point that is closest to demand.”

ASN DEFINED

An EDI 856 Advance Shipping Notice (ASN) is an electronic version of a printed packing slip that tells a buyer how a supplier has packed their items for shipment. Most ASNs will follow either standard pack or pick and pack guidelines.

Usually the buyer will specify how they want the goods packed. The ASN also tells the buyer that the goods have been shipped so they can prepare for shipment arrival.

Fulfillment Facilitators

One tried-and-true method for supporting inventory accuracy and flow is the use of advanced shipping notifications (ASNs). These timely, cost-effective messages transmit detailed shipment information to a customer or consignee in advance of delivery, designating the contents (individual products and quantities of each product) and nature of the shipment. In short, ASNs provide visibility of what is and what isn't on its way.

This insight allows suppliers and retailers to proactively manage their omni-channel supply chains, improving their supply chain planning, control, and exception management. Receiving schedules and staffing plans will be more precise. Inventory can be allocated to stores and individual orders in advance of distribution center (DC) arrival. And, purchase order (PO) discrepancies can be rapidly resolved.

Collectively, these capabilities will improve inventory flows and availability without taking on additional safety stock. That equals cost savings opportunities along with improved performance.

Of course, timely arrival of an ASN document or electronic transmission does not automatically generate success. Also required is inventory integrity – the physical goods match what is recorded in the system. With multiple participants and systems across a global supply chain, achieving perfect integration is easier said than done.

Inventory integrity begins at the point where POs are filled. As orders are picked, packed, and prepared for shipment, 100 percent carton content accuracy is paramount. When the inventory, PO, and ASN all match, an error-free order enters the supply chain to meet consumer demand. Mismatches create inventory errors – those shortages and overages – that may disrupt sales.

As omni-channel supply chain complexity grows, suppliers and retailers will spend heavily on technology and processes. They must also pursue ASN and carton content accuracy. Ongoing improvement in these fundamental supply chain blocking and tackling issues lays the foundation for success.

About the Study

ASNs have long held a vital role in retailing, perhaps now more than ever, given the growing demand for speed and fulfill from anywhere requirements. Hence, conducting a periodic review of ASN processes and performance is beneficial for the industry.

To gain insight into ASN use by retailers and their product suppliers, Auburn University's Center for Supply Chain Innovation has partnered with Traverse Systems, the Retail Value Chain Federation, and Supply Chain Digest on a multi-year study. Since 2010, we have monitored a variety of ASN benchmarks. Our current initiative analyzes:

- ASN deployment
- ASN audit practices
- ASN accuracy levels
- Carton content audit practices
- Carton content accuracy levels
- Benefits of ASN use

A variety of research methods and analytical tools were used to capture relevant information for the study. Key activities included:

- Retailer executive interviews
- Supplier executive interviews
- Online survey
- Company case studies
- RVCF panel discussion

As always, the study participants included retail executives who have primary responsibility for supplier compliance. We expanded the scope of participation to include supplier executives. They provided insights on ASN performance improvement initiatives and discussed the challenges of achieving inventory integrity across the supply chain.

More than 80 supply chain professionals, from a wide array of retailers and suppliers, engaged in the research. Their expert insights and ASN-related data are the foundation of this report. We truly appreciate everyone's input.

KEY NUMBERS

12 executive interviews

58 survey responses

72.5% of participants
from large companies
(revenue over \$1 billion)

AN OPPORTUNITY

“Accurate ASN data enables us to move different types of merchandise more effectively and more efficiently through our supply chain.”

Current State of ASNs: Study Results

The multi-method research approach used in this study provides great clarity of the ASN landscape. Gathering both descriptive information and quantitative data produces richer insights that reflect the true state of industry affairs.

Executive Interview Highlights

The study began with 12 expert interviews. A 14-question interview script drove the half-hour retailer discussions. A similar 10-question framework was used for supplier interviews. The supply chain executives provided insightful and candid comments, shedding light on the ASN value proposition, audit processes, and carton content accuracy improvement initiatives.

ASN Value Proposition

The need for ASNs is widely recognized – ASNs facilitate the rapid flow of goods across the entire retail supply chain. The interviews highlighted a common theme among suppliers and retailers. Both groups depend on correct and timely ASNs to address their most pressing needs – speed to market, inventory accuracy, and product availability.

ASN-based knowledge can be just as important to suppliers as retailers. Suppliers depend on accurate advanced notification from overseas and domestic factories to facilitate the flow of goods through their cross-docks, deconsolidation centers, and DCs. Accurate ASNs promote uninhibited product flows but a missing ASN can bring that flow to a screeching halt. As one supplier noted: *“We can’t receive inbound shipments without an ASN. Our system requires it.”*

Inaccurate ASNs or mis-packed orders have a similar disruptive impact on the retailers’ inbound flows. Problem shipments must be pulled out of the normal sequence of activities so that they can be diagnosed and corrected. *“It puts a lot of work on our EDI team to figure out what’s wrong and have it corrected,”* explained a merchant. These exceptions add cost to the supply chain and may delay the availability of goods.

Suppliers are also well-versed in the financial implications of ASNs and carton content accuracy. On the outbound side, accuracy promotes direct flows through retailer facilities without delays for audits or exception management. Smooth flows lead to timely payment and avoidance of deductions or chargebacks.

The negative repercussions of problem shipments are significant. The obvious supplier concern is the cost of chargebacks for ASN and inventory accuracy issues. Also mentioned were concerns about relationship damage. Poor performance can lead to mistrust, more frequent audits of inbound orders, and less willingness to listen.

A senior executive effectively summarized the supplier's plight: *"If your ASN is late, inaccurate, or doesn't come at all, you're not helping your relationship with your customer. They will believe that you are just not diligent in trying to comply with them. Most likely, you're going to get a chargeback that cuts into your bottom line. And, they won't be willing to listen when you need a waiver for something or ask for a chargeback to be reversed."*

As the retailers explain it, the true value of ASN and carton content accuracy is speed. Error avoidance can mean the difference between moving product through the supply chain within hours instead of days. That means greater on-shelf availability and winning the customer in a difficult retail world. *"If the customer can't find product in your store or on your website, they will quickly go someplace else to find it,"* a retail supply chain executive explained.

Perfect fulfillment by suppliers also saves retailers money in the long run. There is less need for costly audit processes, exception management, and extra product handling in the DC. Costly expediting to save the sale or replenish a shelf is also avoided.

Accurate and timely information also provide valuable data for planning and store allocation decisions. A compliance manager explained: *"It's critical that the ASN data is accurate based on what's inside the carton so that we're not putting incorrect merchandise mixes in the stores."*

THE BOTTOM LINE

"The positive is really simple – you get your goods in and you get them to the selling floor faster than you do when something is wrong."

AUDIT NIRVANA

“Ideally, the vendor will build enough success to be assigned gold status. At that point, we can perform the receipt against the ASN without performing a QA check.”

Audit Processes

Despite the longstanding urban legend about retailers using audits to drive chargebacks, the current purpose of ASN and inventory accuracy audits is not to pad the income statement. Retailers conduct audits to promote downstream on-shelf availability and to categorize suppliers according to their sustained performance levels. These ratings can be used to develop a streamlined audit sampling strategy.

The interviews and survey results revealed a variety of auditing strategies and processes in use by retailers.

A small group of retailers do exhaustive audits, inspecting every carton received versus the ASN. In a few cases, this comprehensive effort includes counting each unit received at the DC and validating the SKU against the ASN and purchase order. While these efforts greatly improve the inventory accuracy as it arrives at the store, the 100 percent process is intensive, expensive, and slow which discourages most retailers from adopting it.

At the other end of the spectrum are basic processes that minimize the time required to conduct audits. Some retailers take an informal approach with random audits of goods from all suppliers. Others choose to do a sample from every supplier. While easier to manage, these strategies may misallocate resources with too many audits of quality suppliers and not enough audits of subpar performers. As one executive put it: *“We are still guessing and there’s no visibility of what’s really happening.”*

The logical middle ground is to use a targeted audit process. A growing number of retailers use a sampling strategy that aligns the frequency and depth of audits with a supplier’s performance and/or type of shipment. For example, a new supplier or one that performs poorly may have 100 percent of receipts audited. Suppliers who perform at an acceptable level are audited on a periodic basis, while exceptional suppliers are not subject to scheduled audits. The goal, notes an executive, is to adopt a shrewd approach to auditing: *“The greater the supplier accuracy, the less we audit. That means inventory spends less time within the four walls of our DCs.”*

Improvement Initiatives

The quest for quality is an ongoing initiative for retailers and their suppliers. Everyone recognizes the ASN and carton content accuracy performance imperative. Poor ASN performance has a domino effect on the downstream supply chain. That is, *“if you don’t start out right, it’s never going to get better,”* noted a retail professional. *“If you receive against an inaccurate ASN and the vendor sent you all smalls instead of an assortment, then you have one size in your stores and you don’t even know it.”*

Improvement doesn’t happen by itself and both parties are making a concerted effort to boost ASN and inventory accuracy performance.

Clarity of requirements is the first step toward accuracy. Retailers recognize the value of consistent communication with suppliers and are taking key steps to be more transparent at the start of a new relationship. Onboarding initiatives provide needed direction for new suppliers. Website-based supplier guides provide ready access to ASN, documentation, labeling, and inventory requirements. Conference calls and meetings reinforce the importance of ASN compliance.

After the freight begins to flow, scorecards and report cards are great attention getters. They help retailers alert suppliers to issues that must be resolved. One supplier executive noted: *“Report cards give you the best snapshot of your behavior on different fronts, including ASNs and accuracy. The feedback you get is the impetus to correct the red flags that need to be fixed.”* Such efforts will help suppliers minimize the risk of future chargebacks.

Suppliers are also proactively developing processes to achieve accurate fulfillment and documentation. Many are postponing ASN creation until after the order has been picked and adjustments made to the purchase order. Others are deploying technology to scan-and-pack goods to minimize mis-pick risks. Another option is to create a dedicated team to understand and manage compliance. These methods are discussed in the best practices section.

THE REMINDER

“When communicating with vendors, I reinforce the importance of ASNs. It is a business requirement. Make the effort to understand our priorities.”

FAST FACT

Only 10 percent of retailers hold the line and refuse to work with suppliers that do not provide ASNs.

Retailer Survey Results

Details regarding ASN and inventory accuracy requirements were captured from 58 U.S. retailers. The 26-question survey captured information from both ASN users and non-users. The retailers provided valuable intelligence about ASN deployment and their carton content accuracy initiatives, including strategies, methods, and outcomes.

ASN Deployment

ASN use continues to grow in the retail sector. The vast majority of survey participants – approximately 83 percent – make extensive use of ASNs. This is a 7 percent increase in use versus the 2011 study results. Understanding the value of this information, the retailers require ASNs for all or multiple types of shipments.



The proportion of study participants that do not require ASNs has shrunk since the 2011 study. Less than 20 percent of these retailers choose not to capture ASN data from suppliers. Their widely cited reason for not using ASNs is: *we lack the necessary technology infrastructure.*

These retailers rely on reactive methods such as supplier email messages and carrier delivery appointments to capture order information. The non-users realize that these tactics create operational headaches like lost receiving efficiency, data entry inaccuracies, and product flow disruptions. To remedy the situation, more than half plan to begin using ASNs in the near future.



Requiring ASNs is only the first step toward improvement. Suppliers must be willing participants, both providing ASNs and making sure that they are compliant with each retailer’s requirements. The survey results reveal a wide range of ASN receipt levels, from 25 percent to 100 percent, with an average supplier participation level of 88 percent. That compares with 84 percent in the 2011 study.

Compliance lags participation levels, at 82 percent, with a range of 34 percent to 100 percent. These participation and compliance gaps are particularly challenging for retailers dealing with large, powerful branded goods suppliers. In particular, smaller retailers indicated that they cannot dictate the terms of ASN contents and have a difficult time gaining compliance, even when chargebacks are attempted. As one interviewee from a smaller retailer put it: *“Our major vendors can break the rules because they make the rules. Complain and you get less product.”*

By no means are ASNs going away. However, demanding customized ASN, labeling, and packaging requirements may be unrealistic for all but the largest retailers. Smaller retailers may need to adopt more standardized, supplier-defined ASN documentation guidelines.

GAME CHANGER

As suppliers pursue direct-to-consumer sales, they may become reluctant to comply with specific ASN policies for all but their largest retailers.

EVALUATION PLAN

Inventory integrity audits are regularly conducted at retail DCs with an average of 57 percent of orders being physically checked for accuracy.

Inventory Accuracy

Documentation, by itself, is helpful but insufficient to boost on-shelf availability. The carton contents must match the ASN and the purchase order. Product mismatches and order fulfillment errors at a supplier's DC or factory lead to downstream supply chain problems. Hence, retailers need to focus on carton content accuracy to promote inventory integrity between the physical stock on-hand and the virtual counts on the supply chain information system.

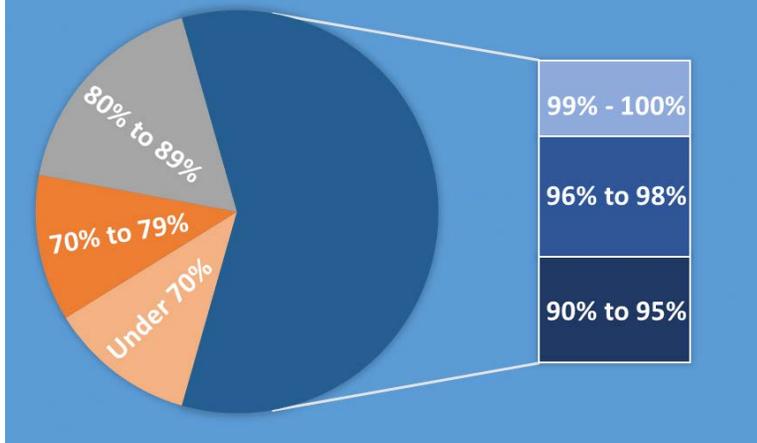
Among the survey participants, 9 out of every 10 retailers conduct some type of inventory audit. That is a slight drop from the 93 percent level reported in the 2011 study.



As discussed earlier, retailers use a variety of auditing strategies. The strategy gaining the most traction is a performance-based audit. New suppliers and suppliers that are performing below retailer expectations may have every order inspected for accuracy. As fill rates and order accuracy increase, the frequency and scope of audits decrease. This targeted strategy reduces inspection cost as time is not wasted on inspecting the receipts from proven suppliers.

Compared to the 2011 study, fewer retailers are following the tactic of inspecting every shipment. That level of intense supplier scrutiny has dropped significantly in 2017, with about 10 percent of the retailers inspecting every unit of product in every delivery.

Accuracy Achieved by Suppliers During Audits



The critical concern of retailers is what they might discover when they open cases during an inventory accuracy audit. The median accuracy level reported by the study participants was 92 percent with a very wide range of 50 percent to 100 percent performance. As the graphic indicates, 6 out of 10 retailers reported an aggregate supplier performance score of 90 percent or better.

Compared to the retailer participants' median goal of 98 percent accuracy level, supplier performance appears to be lagging. Recall, however, that the retailers are directing greater attention toward new suppliers and problematic suppliers. This can skew the results as top-quality suppliers are evaluated less frequently. Their excellent results carry little weight in the aggregate performance evaluations.

Both parties are working to close the goal versus outcome gap. The retailers try to clarify requirements from the start of the relationship. Nearly 90 percent of the study participants indicated that they have an onboarding process to quickly acclimate new suppliers.

Committed suppliers are adopting rigorous fulfillment processes, proven technologies, and team-based approaches to achieve greater inventory accuracy. These high impact initiatives are discussed in the best practices section of the report.

IT TAKES A TEAM

"We have a big box retailer that holds a boot camp to help you understand their needs. If you make an error, they get you on the phone to resolve the problem. There's not a chargeback first mentality."

THE IMPERATIVE

“Suppliers face a big financial challenge if they don’t understand the importance of packing the cartons correctly, putting the right label on the cartons, and then transmitting the right data.”

Despite these noble efforts, study participants indicated that significant barriers to success exist. Their most pressing challenge, according to the survey participants, is using the audit results to drive supplier improvement. Not all suppliers are willing to collaborate on improvement. And, some can be a bit defensive when quality issues are found. One retailer representative wondered: *“Why do some suppliers feel like they can call our audits into question? We open every carton and scan every ticket. So, unless they are doing the same thing, how can they tell me that errors are not possible?”*

Internal challenges also affect the success of inventory integrity audits for retailers. The effort can be time consuming and the cost can be prohibitive if not managed properly. Finally, achieving internal improvement may prove to be as difficult as supplier improvement. There needs to be a champion of the cause who has the financial resources and clout to prioritize inventory accuracy.

If these challenges can be sidestepped, then the value proposition is greatly boosted. Inventory integrity audits generate a variety of important benefits, according to the study participants.



Collectively, the survey results indicate that ASNs are key initiators of rapid product flows through retail supply chains. Inventory accuracy is essential for efficient fulfillment and product availability. Most suppliers are performing as desired but room remains for improvement of inventory integrity. Thus, inventory audits will continue to be part of DC receiving processes for the foreseeable future.

Case Study Analysis

Given the ongoing challenge of achieving the targeted level of inventory integrity for many retailers, it is valuable to dig deeper into the situation. To gain a perspective on the sources of inventory inaccuracies, an ongoing review of a major retailer’s audit results has been conducted. This ten-year analysis provides effective indicators of accuracy trends, pinpoints areas of concern, and signals where to focus improvement efforts.

For comparison purposes, 2016 data from three additional retailers was also collected and analyzed. Other retailers and suppliers can use this information as benchmarks for their inventory accuracy improvement initiatives.

Overall Accuracy

Analysis of the four retailers’ data covers more than 2.6 million cartons and 34.5 million units in 2016. Each of the retailers achieved a higher level of inventory accuracy than the median performance of 92 percent among the survey respondents.

Participant	Units Audited	Audit Accuracy	Perfect Vendors
Retailer A*	51.7 million	96.5%	15.8%
Retailer A**	4.7 million	98.1%	15.6%
Retailer B**	6.7 million	96.5%	36.0%
Retailer C**	598,023	97.1%	33.3%
Retailer D**	22.5 million	98.0%	25.9%

* 2007-2016 ** 2016 only

While their individual and collective performances are excellent, significant opportunities for improvement remain. Among the case study companies, the highest perfect vendor performance was 36 percent for 2016. And cumulatively, more than 750,000 units had some type of error. That leads to out-of-stocks and unhappy customers.

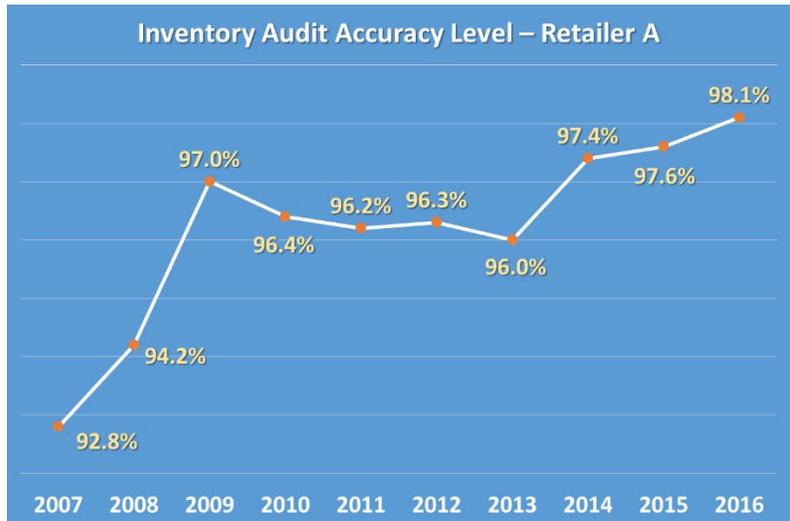
A CONUNDRUM

A surprising number of retailers cannot break down their accuracy data by vendor, error type, or shipment type. Other retailers do not keep the data for more than 60 days. This limits analytics opportunities.

THE PAYOFF

Over the ten-year study period, Retailer A has pursued an initiative to prioritize inventory audits. While there is ample room to reduce errors, the upward trend in accuracy speaks to the value of a systematic audit program.

An extended performance review of Retailer A reveals that the company has achieved a 5.7 percent increase in supplier inventory accuracy over a ten-year period. The 98.1 percent level in 2016 puts Retailer A among the top performing case study participants.



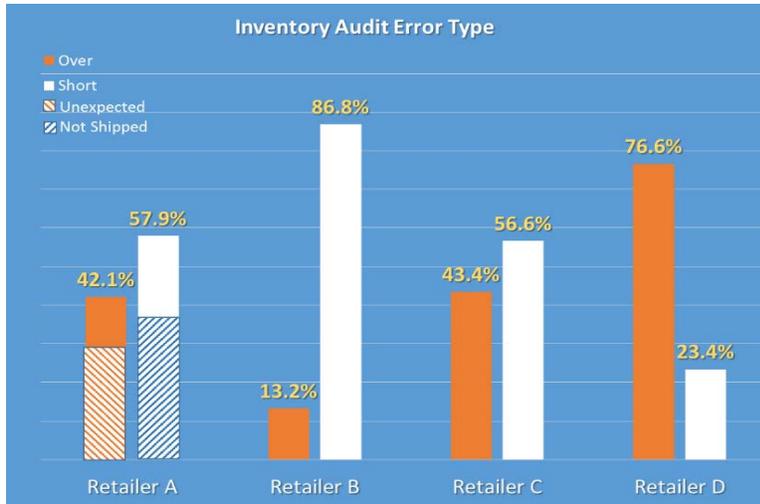
Interestingly, this performance was achieved despite having the lowest proportion of perfect vendors in 2016. Retailer A's perfect vendor performance dropped from a high of 27.9 percent in 2007 to a low of 8.6 percent in 2012. Since then, there has been a steady climb to the 15.6 percent perfect vendor level in 2016.

Error Type Analysis

The initial step toward inventory integrity improvement is to diagnose the inaccuracy problems of the case study retailers. Four types of errors may be found during an inventory integrity audit:

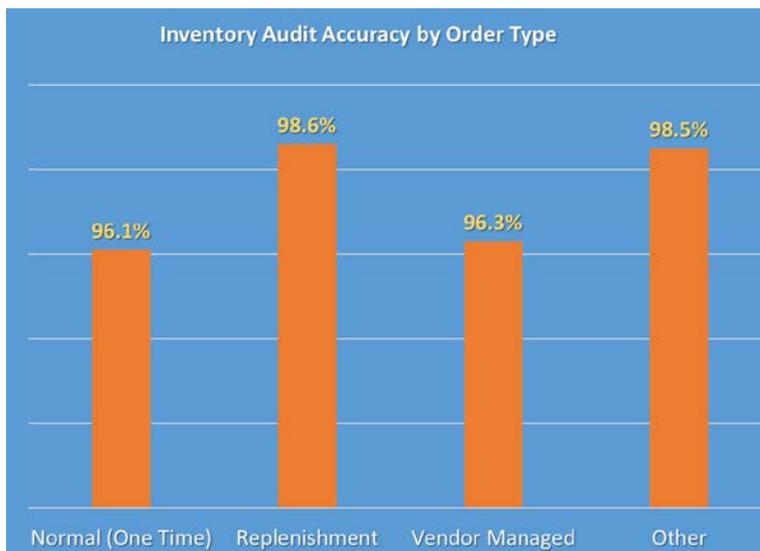
- (1) Product shortage – the audited order contains less product than is listed on the ASN.
- (2) Product not shipped – a special type of shortage in which only part of the shipment listed on the ASN is delivered.
- (3) Product overage – the audited order contains more product than is listed on the ASN.
- (4) Unexpected product – a special type of overage in which the order contains product that is not listed on the ASN.

Error data for Retailer A is split into each of the four categories. The other retailers provided a consolidated snapshot of their 2016 results using the primary over/short designations.



Order Type Analysis

Audit data for Retailer A was segmented by order type for further investigation. Primary order type data captured includes: normal orders, replenishment orders, vendor managed orders, and other types of orders. Note that normal order accuracy lags the replenishment category by more than 2 percent. With normal orders representing 67 percent of total receipts, there is a huge win to be gained by boosting accuracy of this order type.



SEGMENT TO WIN

The ability to segment inventory accuracy data by error type and order type will help retailers and suppliers focus improvement efforts on the areas of greatest potential payoff.

THE CONNECTION

“The more integrated your ASN system is with your pick-and-pack operations, the more accurate the end result is going to be.”

Best Practices

The 2011 study noted that “only a small group of retailers is devoting significant resources and effort to meet accuracy targets.” In contrast, the 2017 study revealed a much stronger focus on ASN use and inventory accuracy. Both suppliers and retailers are adopting more proactive strategies and results-oriented approaches.

In the survey, retailers identified the supplier capabilities that they actively seek out.

Capabilities of Top Suppliers	Retailer Agreement
Have dedicated teams that focus on ASNs and inventory accuracy.	56.3%
Use scan-and-pack techniques.	56.3%
Create ASNs AFTER the fulfillment of an order.	65.6%

Supplier Success Tactics

The key to supplier performance is consistency of purpose and attention to detail. When suppliers properly align their people, processes, and technology, improvement will follow.

Priority 1. Assemble the right talent on your ASN team.

Entrust a team with ASN and accuracy responsibilities. Then, educate them on the how, when, and why nuances of their roles to build ownership and commitment to success.

Priority 2. Use technology to drive accurate fulfillment.

Scanning technology avoids inattention to detail and fatigue that generate errors. This helps suppliers pick, pack, and ship the right goods in the right quantity for their retailers.

Priority 3. Base ASNs on fulfillment rather than orders.

When ASNs are created prior to order fulfillment, errors can creep into the process. It is far better to create an accurate ASN after the order is picked and packed.

One of the apparel companies interviewed for the study applies all three priorities in a cohesive fashion, taking the time to train people in the proper techniques and processes. Then a layer of technology is applied.

“We ensure accuracy with scanning,” the apparel executive explained. *“Item scans are recorded as each carton is built, then when you’re done packing the carton, the carton label is produced. The carton number is associated with the scan of all the UPCs that were put into that carton. The ASN is generated from this information after the shipment leaves our building and is transmitted to the retailer.”*

Retailer Success Tactics

Reducing the delays, inaccuracies, and rework caused by inaccurate ASNs is not the sole responsibility of suppliers. As the benefactors of timely ASNs and accurate inventory, retailers must create a logical agenda and facilitate success through information sharing and consistent actions.

Priority 1. Educate, communicate, and collaborate.

Use onboarding, scorecards, and meetings to build an ongoing, two-way dialogue with suppliers. Ensure that they grasp the magnitude of ASN accuracy, comply with requirements, and achieve performance goals.

Priority 2. Refine the audit strategy to focus on exceptions.

Leading retailers are moving away from full-scale inventory integrity audits to initiatives that directly aim at high risk suppliers. Spending time and effort on the critical few will reduce auditing costs while generating maximum benefits.

Priority 3. Mine the available data to drive actions.

Collecting a continuous stream of ASN and inventory audit data but never using it to drive improvement is wasteful. Analytics should be used to decipher inventory integrity trends and prescribe appropriate responses.

Suppliers appreciate retailers that share insights in a timely fashion. *“The sooner we know about an issue, the sooner we can address it,”* noted an apparel company manager.

BEING PROACTIVE

“If we’re having a large ASN accuracy issue with a big supplier, we will make a special visit to walk through their processes, try to understand where their processes are creating issues, and talk with them about that.”

GIVE ME EXPERTS

“It’s all about the people that we work with and the caliber of their knowledge. They understand when you talk to them about your requirements or the map. They get it.”

Tactics Wish Lists

While internal and collaborative priorities are being developed by retailers and suppliers, much work remains. During the interviews, executives were asked about their wish lists for ASN and inventory accuracy improvements. Both sides avoided pie-in-the-sky requests for capital investment by their counterparts. Instead, retailers and suppliers focused on gaining more precise information about processes and problems.

The retailer wish list included requests for process clarity, attention to detail, and actions rather than words. They need assurance that suppliers are not treating ASNs and accuracy as a nuisance. Retailers want suppliers to build a stable team of all-stars that ask logical questions and develop solutions.

The supplier wish list focused on detailed feedback, advanced notification, and fairness. They need timely, thorough explanations of errors and process changes so that they can avoid costly chargebacks. And, they’d love to see those retailer penalties be less punitive.

Retailer Wish List	Supplier Wish List
“Tell us what procedures are in place to guarantee accuracy of your picks and ASNs before shipping.”	“Give supporting photos and documentation of errors to help us get to the root causes.”
“Check one more time for 860 order changes before an order goes out. You could alleviate a lot of the penalties.”	“Provide more lead time on mapping changes. We really have to act quickly, or we’ll have a flawed EDI document.”
“How much auditing are they really doing? It’s hard to get them to answer this question honestly.”	“Is it a critical requirement to warrant that amount of chargeback? Sometimes, I think that it goes too far.”

Tactics to Avoid

Just as there are keys to ASN and inventory accuracy success, retailers and suppliers should avoid a number of tactics that only provide only short-term relief. Too often, the goal is to make the immediate problem disappear. Unfortunately, that does little from a future perspective and the problem will likely reappear in the future. Here are three common issues:

One of the quick-hit but low improvement tactics is an over-reliance on vendor chargebacks. Penalizing a supplier for a repeated error may well be warranted. However, any focus on truly correcting a problem will be lost if phantom or outsized chargebacks occur. Instead, attention becomes centered on an unproductive “blame game.”

An ASN specialist for a sporting goods supplier discussed a burdensome shortage issue with a single retailer. *“It didn’t matter what we shipped, they were always short,”* the specialist noted. *“We started videotaping the trailer loading and counting activities. When the chargebacks came, we provided the video to show that the product was shipped. They would reverse all the chargebacks. Problem solved but we had to go to extreme levels to prove ourselves.”*

Another rapid but ineffective tactic is to “pass the buck” when an ASN or inventory accuracy issue is discovered. Often, one organization is not the sole source of an error and both parties may play an important role in developing a viable solution.

A supplier representative talked at length about this issue: *“Improvement is not one person’s responsibility or nobody’s responsibility. It really does take a team approach to solve issues. They have to look at it very, very objectively.”*

A third issue is a lack of clarity or timeliness on retailer feedback. When chargebacks are vague and detail emerge slowly, it is difficult for the supplier to remedy the situation.

“For the most part, we do not know that we are having a problem with a retailer until we see a chargeback;” said the sporting goods representative. *“And that can be 30 to 60 days out. By then, the problem has likely occurred again.”*

A STARK REALITY

“I started as a compliance officer and now I work for a supplier. Now that I have been on both sides of the fence, trust me when I say – both sides make mistakes.”

THE EXTRA MILE

“Our supplier added a secondary post-pick audit where they rechecked the pallets. Once they did that, they got to the 99.7 percent accuracy range and stayed there.”

Study Implications

By now, it should be abundantly clear that both suppliers and retailers have a vested interest in the accurate use of ASNs and the achievement of inventory integrity across the retail supply chain. Problems with documentation and order accuracy only serve to delay the flow of goods and create availability gaps for consumers. The outcome is a greatly magnified risk of a lost sale.

Supplier Implications

Suppliers are under intense pressure to “get it right” all the time – the right product at the right time with the right documentation. Large retailers like Walmart and Target have upped the ante with higher standards for on-time, in-full deliveries and greater penalties for noncompliance. Saks Fifth Avenue recently added two new shipment accuracy chargebacks with large penalties and a monthly penalty for being placed in their Vendor Audit Program.

With retailers facing competition from all fronts, they are demanding near-perfect service from suppliers. The only way to successfully address the challenging of more rigorous audits and fines is to provide perfect service. Adopting the best practices discussed earlier in the study can help suppliers prevent costly errors.

Retailer Implications

It’s worth repeating that every retailer needs to be on top of its game in 2017. Amazon is going all in on nearly every retail sector from its development of private label apparel to its acquisition of Whole Foods. And major brands are taking direct aim at retailers with online stores. As a Nike executive said during a recent conference presentation: *“We used to focus on a few hundred zip codes. With e-commerce, we are focusing on thousands of zip codes.”*

The best way to combat these powerful competitors is to go back to the basics – provide selection, exceptional value, and availability. ASNs and inventory integrity go a long way to ensuring availability when and where the customer wants the product.

Summary

Much has changed since the 2011 study – some major names in retailing are gone forever, others have changed directions, and nobody laughs anymore about the latest announcement from Amazon, whatever it may be.

However, one thing hasn't changed in this hyper-competitive retail environment, – the need for accurate information and inventory integrity. ASNs play a critical role in the timely flow of goods across the retail supply chain. Retailers and their suppliers are deploying effective processes, technologies, and people strategies to drive ASN compliance and greater inventory accuracy. While these efforts are commendable, there is a never-ending need for continuous improvement.

In this chaotic world of retailing, the ASN imperative is unwavering. In fact, the 2017 study results confirm that the closing line from the 2011 report is still spot on: *Best in class retailers understand the financial impact of ASN errors and collaborate with suppliers to reach inventory accuracy targets. Doing so helps their supply chain operate more efficiently and provide the desired level of customer service.*

About the Author

Brian J. Gibson, Ph.D.

CSCI Executive Director

Wilson Family Professor



Dr. Gibson is a 25-year supply chain educator whose activities are greatly influenced by his nine years in retail distribution management. He leads the Auburn University Center for Supply Chain Innovation and stays connected to industry through corporate training, practical research, and professional engagement. Dr. Gibson has co-authored numerous research studies and three supply chain books. He serves on RILA's SCM Steering Committee, on CSCMP's Board of Directors, and as NASSTRAC's Education Advisor.

THE NEXT STEP

“Scorecard visibility and better information sharing to our suppliers is definitely on our short list to accomplish in the next 12 months. With supplier access to the portal to see the scorecard, they will know their audit level and what that means in terms of product movement through our distribution centers.”

Contact Information

For additional copies of this publication or for more information about the study, please contact any of the following:

Brian Gibson, Ph.D.

Executive Director

Wilson Family Professor of SCM

Auburn University

brian.gibson@auburn.edu

T: 334.844.2460



CENTER FOR
SUPPLY CHAIN
INNOVATION

Greg Holder

CEO and Co-Founder

Traverse Systems

Greg.Holder@traversesystems.com

T: 877.267.3671



Kim Zablocky

Founder

RVCF

kzablocky@rvcf.com

T: 646.442.3473



Dan Gilmore

President and Editor in Chief

DC Velocity

dgilmore@dcvelocity.com

T: 937.350.7915



Copyright 2017, Center for Supply Chain Innovation

All rights of any nature reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, without written permission from the copyright owners.